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UNCLAS SECTION 01 OF 02 CANBERRA 000532

SIPDIS

STATE FOR EEB/TPP/ABT/ATP JANET SPECK AND EAP/ANP

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [AS](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES - AUSTRALIA

REF: A. A) STATE 39410

[B. B\) RYAN-ALBRIGHT EMAIL OF 5/21/08](#)

[1. Summary:](#) The rise of food and agricultural commodity prices has had very limited impact in Australia. A major agricultural exporter, Australia even stands to benefit. Rising food prices have caused no significant economic, political, or environmental problems in Australia. Post has no recommendations for changes in US food policy with regard to Australia. End summary.

DEMAND/SUPPLY

[2. Australia,](#) a wealthy developed economy and a major global exporter of agricultural goods, has not suffered due to rising food and agricultural commodity prices. Australia on average exports two-thirds of its agricultural production. It does import agricultural products, but these are mainly items not readily available in Australia - demand for staples such as grain, meat, vegetables and dairy products is met almost 100% by local production. Australian agricultural imports (approximately \$6 billion/year) are limited to high-value processed products and items like coffee and off-season fruits.

[3. Changes in domestic agricultural production](#) are more due to climatic conditions - in particular, the ongoing severe drought in much of Australia's agricultural heartland - than to rising commodity prices. The current drought which began in 2002 has, for example, essentially eliminated Australia's rice production; a country that used to provide 2% or more of global rice exports is now a net importer of rice. Australia does not have any bottlenecks impeding food production, storage, or distribution. Its fledgling biofuel industry is held back by a lack of feedstock as the ongoing drought and quarantine restrictions limit the availability of grain used for making biofuels.

POLITICAL/ECONOMIC/ENVIRONMENTAL IMPACT

[4. There has been no significant political reaction](#) to higher food prices. Consumers grumble, but nobody is rioting or starving, and Australia's groceries are very well stocked. Recent complaints about high food prices have been aimed more at Australia's two dominant grocery chains, accused of colluding to keep retail prices high and suppress other competitors. Farmers who have had enough water to produce crops are of course quite pleased at the increased prices for agricultural commodities.

[5. Rising food prices do contribute to some extent to a recent rise in inflation in Australia,](#) now around 5%. However, Australia's ongoing economic boom (now in its 17th consecutive year of growth), a tight labor market, and dramatic increases in prices for Australian-produced

commodities such as iron and coal are much greater contributors to inflation than food prices. Australia runs a persistent trade deficit; rising global food prices work to improve Australia's export figures and terms of trade. Higher agricultural prices may increase inflation by stemming the flow of labor from the agricultural sector to other parts of the economy, exacerbating tight labor markets.

¶16. Water availability has been a critical problem for Australia for years; rising food prices have had no discernable impact. In many areas, there is not enough water to sustain current or historical levels of agricultural production, let alone support more, so Australia's acreage involved in agricultural activities has not grown.

POLICY RESPONSE

¶17. The GOA has made no significant policy changes in response to global food price increases. Australia is the founder of the Cairns Group of major agricultural exporters and continues to press for greater liberalization in global agricultural trade. However, rising grain prices have spurred a greater acceptance for reform of Australia's single-desk wheat export program (producers realizing they can get better prices from private traders) and created an opening for the limited import (usually discouraged by Australia's strict quarantine regime) of commodities such as corn, soybeans, wheat, and sorghum. A recent complaint by Australian pork producers alleging dumping by US and Denmark was dismissed by the GOA on the grounds that rising feed prices were the primary problem for domestic producers. There has been no change on GOA food assistance programs.

CANBERRA 00000532 002 OF 002

POST PROGRAMS/POLICY PROPOSALS

¶18. There has been no impact on Mission Australia programs. We have no recommendations to make with regard to USG policy towards Australia - GOA policy on food remains consistently supportive of trade liberalization and open markets.

¶19. Post regrets the delay in this response - we did not receive refTel until it was emailed to post on May 21 (refB).

MCCALLUM